

DIRECT TESTIMONY OF DEBORAH SEDARES

D. T. E. 01-42

Q. Please state your name, business address and business affiliation.

A. I am Deborah Sedares, Counsel and Regulatory Permit Manager for The Pinehills, LLC. My business address is 33 Summerhouse Drive, Plymouth, Massachusetts 02360. In that capacity, I provide services to Pinehills Water Company, Inc. (the "Company").

Q. What are your responsibilities in that capacity?

A. My responsibilities include management and oversight of all matters pertaining to permitting and regulatory compliance including federal, state and local environmental and land use statutes and regulations and including management and oversight of matters pertaining to the operation of the public drinking water supply system for The Pinehills.

Q. Please outline your educational and professional background.

A. I graduated from Wheaton College in 1984, magna cum laude, and from Suffolk Law School in 1987, cum laude. I then became a Staff Counsel for the Commonwealth of Massachusetts, Office of the Comptroller and progressed to the position of Chief Counsel for the Commonwealth's Purchasing Agent's Division. In 1989 I moved to the Massachusetts Turnpike Authority as Assistant General Counsel, where my responsibilities included implementation and management of environmental compliance plan for all Authority operations; oversight and management of litigation pertaining to various environmental matters; implementation of procurement and contracting procedures for purchase of goods, equipment and services by the Authority and oversight of complex technology procurements; various real estate matters; permitting, environmental and real estate matters pertaining to extension of public water system from Town of Southbridge to service Authority facilities and residents in Town of Charlton. Between 1995 and 1998, I served as General Counsel for the Worcester Redevelopment Authority, where I had management and oversight of all legal matters for \$250 million redevelopment of 24 acre parcel in downtown Worcester, and \$40 million rehabilitation of the historic train station, Union Station, in Worcester. My other responsibilities included matters relating to eminent domain, real estate, hazardous waste site cleanup and various local, state and federal permitting issues. My most recent position before joining Pinehills was Secretary and General Counsel for the Providence and Worcester Railroad Company, a freight railroad operating in Massachusetts, Connecticut, Rhode Island and New York. There my responsibilities included management and oversight of all legal matters for the company including SEC compliance and corporate governance, litigation, real estate, labor relations and human resources, governmental relations, safe work practices, and environmental compliance.

Q. What is the purpose of your testimony in this proceeding?

A. I will first describe The Pinehills project in terms of the location and the residential and commercial development that is in process and planned. Additionally, I will describe the physical infrastructure and the legal and operational

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arrangements that are being developed to provide water service to the residents of The Pinehills. This description will address the formation of the Pinehills Water Company and in general, the development of rates for Pinehills Water Company.

Q. Please describe the Company.

A. Pinehills Water Company, Inc. is a recently formed Massachusetts corporation. It will own certain water supply and delivery facilities and will provide water utility service to The Pinehills community in Plymouth, Massachusetts. As described below, it will also lease certain facilities from an affiliated company and, for greater efficiency, through the PS Water Services LLC, will utilize the services of employees that also provide services to its parent company. The original, developing owners of The Pinehills will be the ultimate owners of the Company.

Q. Is the Company offering the direct testimony of any other witnesses?

A. Yes. Mr. Stephen Alcott's testimony and calculations in support of the development of costs and rates is attached.

Q. Why is it necessary to create a new water company and seek rate treatment from the Department?

A. As I describe below, The Pinehills community will be a substantial residential and commercial development in currently undeveloped land within the Town of Plymouth. Although the Town of Plymouth does provide water service to many parts of Plymouth, its nearest facilities are several miles away from Pinehills and the Town made it clear to Pinehills that the Town would not provide water or sewer service to Pinehills. Therefore, it is necessary that the development have its own self-contained water system. Because that will have a significant cost and because the developers want to ensure high quality water service that will continue to be available as long as needed, it is necessary to establish a system of rates to ensure continuing financial viability of the system. The vehicle for providing such is the Company. I must note, as I discuss further, below, that the developers are well aware of the obligations and responsibilities of water utility companies and fully intend to comply and satisfy such requirements.

Q. Please describe The Pinehills and entities involved with the development of this property.

A. The Pinehills, being developed by Pinehills LLC, an entity formed by the principals of New England Development, The Green Companies and Wallace Associates, is a premier open space master planned mixed use community. The Pinehills is being created on 3,000 or more acres of land acquired by Pinehills LLC primarily from the Digital Equipment Corporation in 1998. Much of the abutting land is open space, including to the west the 15,000-acre Myles Standish State Forest and the over

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600-acre Forges Field parcel owned by the Town of Plymouth and to the south various Town-owned open space parcels and the State Park in the Ellisville section of Plymouth. The Pinehills land, covered by pine woods and fields, was virtually undeveloped when acquired in 1998. The planned development of The Pinehills is designed to minimize disruption to the existing natural features of the land. More than two of every three acres within The Pinehills will be common open space or facilities, including woods, trails, roads, recreation and golf. An ancient way, known as Old Sandwich Road, which is largely unpaved and runs north to south, bisecting The Pinehills, is being substantially preserved in its current state as is the view from Old Sandwich Road of the rye field across from Wright Tavern, an inn originally constructed in 1792. Vehicle access on Old Sandwich Road may be limited by the Town. Approximately twenty miles of other gravel roads and footpaths weave through the wooded lands, many of which will be preserved or upgraded as part of the network of public and private pedestrian paths and trails that will link together The Pinehills. Under agreement with the Town of Plymouth, approximately 200 acres of land within The Pinehills will be set aside under a Conservation Restriction which will provide that this land will be maintained in perpetuity and exclusively for conservation purposes, maintaining the land as open space and protecting the natural environment. The conservation land will be managed by The Wildlands Trust of Southeastern Massachusetts, a non-profit corporation that holds and maintains land for conservation purposes. The conservation land will be available to members of The Pinehills community and the public for passive recreational uses including walking, hiking, cross-country skiing, snowshoeing, bird watching and nature study. The Pinehills "open space mixed use development" community has substantial size and diversity and is being developed over a period of years. The land has been permitted for this unusual mixed use community under the Town of Plymouth's visionary Open Space Mixed Use Development zoning overlay. The key to this zoning is the requirement that only 30% of the land be built on, so the land that is appropriate for green space may be preserved and the land most appropriate for building and construction will be built on. As further described below, it will include a variety of housing types and commercial uses as well as open space amenities such as golf courses, community facilities, roads and trails, agricultural uses and passive and active recreational uses. The Village on the Green, a primarily commercial and retail district area within The Pinehills, may include a variety of commercial and retail development including hotels, conference centers, offices, restaurants, public buildings and retail stores. Some residential uses may also be developed within the Village on the Green District. This "open space" development approach is relevant to costs of water service because customers are spread out so there is a correspondingly more extensive distribution system than for a more concentrated customer base. That contributes to a higher cost system.

Q. Please describe how residents of Pinehills will obtain their utility services.

A. Water is being provided by the Pinehills Water Company to Pinehills, LLC administration offices and model homes now. However, the Company will not charge for any water services until the Department has approved proper rates. The Company is hopeful that some interim rates can be put in place expeditiously, but in any event, until the normal timeframe for Department review and approval of water rates, the Pinehills will only have a small number of residences and commercial facilities occupied and taking water service. The first commercial use of water at Pinehills is expected to begin in late May with the first residential use soon after. All utility services, including water, sewer, electricity, gas, cable service, internet and telecommunications, will be metered, where required, and billed to the individual users either by The Pinehills Landowners Association or directly by the provider entities. The creation of a Pinehills Community intranet service is planned for the future. Generally, homes and commercial and retail facilities within The Pinehills will be serviced by a private sewer treatment facility, although The Pinehills is permitted to construct a limited number of individual or shared on-site septic

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systems to service homes at The Pinehills. For those homes serviced by the individual or shared on-site septic systems, The Pinehills Landowners Association will be responsible for the maintenance, repair and replacement of these systems, including pumping of these systems on a regular basis, the cost of which will be assessed by The Pinehills Landowners Association to the individual owner. For those homes and commercial and retail facilities serviced by the private sewer treatment facility, the utility charges for the sewer service will be paid directly by The Pinehills Landowners Association, and the cost of these charges will be assessed by The Pinehills Landowners Association to the individual residential homeowner or commercial owner. The owners serviced by the private sewer treatment facility also will be members of The Pinehills Private Sewer Treatment Facility LLC, which will own the land on which the sewer treatment facility is located.

Q. Over what period is this development going to occur and how big will it be?

A. The Pinehills is being constructed over a number of years, and may be expanded with the approval of the Town of Plymouth. A maximum of 1,934 Limited Occupancy Community ("LOC") homes, 920 Planned Retirement homes (which will include detached single family homes, attached single family homes, condominiums and apartments), and 1,300,000 square feet of general commercial and retail buildings (including offices, hotels, conference centers, restaurants and 220,000 square feet of retail stores) are permitted within the 3,037 acre Pinehills community in accordance with the Development Plan or Master Plan approved by the Town of Plymouth. Additional construction may be permitted if The Pinehills community is expanded with the approval of the Town of Plymouth.

Q. Will the residents have any community associations to assist in provision of and payment for common services, including utility services?

A. Yes. There will be a Pinehills Landowners Association, governed by a Board of Directors. The primary duties of the Board of Directors are to administer and supervise the management of common areas, the provision of common services, and the observance and enforcement of covenants and restrictions on property owners within The Pinehills. Initially the members of the Board will be appointed by Pinehills LLC, though with an Advisory Committee to serve as a liaison between the property owners and The Pinehills LLC. Upon the sale of 95% of the development, all members of the Board will be elected by vote of the Association's members, with required Board representation for Residential and Commercial owners. Owners share the Common Expenses of The Pinehills Landowners Association in proportion to their voting rights.

Q. Please describe the facilities necessary to provide water service to the residents of Pinehills.

A. There are already in place, properly approved by the Massachusetts Department of Environmental Protection, two wells each with a safe yield of 2,680,000 gallons per day, along with a jockey pump that now provides service to Pinehills administrative offices. The wells are identical and each backs-up the other in case of one being out of service for maintenance or otherwise. Exhibit A hereto provides maps showing existing and anticipated build out of the water plant and distribution system and

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related permit approvals. To ensure reliability, the pump station also has a back-up electric generator. There are currently 15,933 feet of water mains and two services to serve the model houses and other facilities that have been built to date. Additionally, as the phased construction of the project progresses the demand for water will naturally increase. We expect that we will have to install a booster pumping station in 2003 and 750,000 gallon storage tank in 2004 and as construction proceeds we will add more mains, services and meters until buildout is complete when we will have 45 miles of water mains, and at least 2,864 residential services and meters and 1,300,000 square feet of commercial property metered. As described in greater detail in the testimony and attachments provided on the Company's behalf by Mr. Alcott, the total cost of such facilities is now estimated to be about \$23,000,000. We currently plan to require the real estate developers to make contributions to the Company of approximately \$12,000,000 of the secondary mains, services, meters and hydrants. The Company will own such plant, while the remaining \$11,000,000 of the plant will be owned by Pine Springs Realty LLC (the "Realty Company") and leased by the Company.

Q. Who will own these facilities?

A. The Company will own approximately \$12,000,000 of secondary distribution mains that we project will have to be contributed by the real estate developers. Most of the other facilities, including the pumping plant, the relevant land, standpipes, purification equipment, some distribution mains and will be held by the Realty Company.

Q. Why is an affiliate owning such facilities rather than the Company?

A. Such bifurcated ownership and facilities lease structure is intended to reduce the rates for water service compared to what would otherwise be required. Tax and financing benefits are intended to yield this result.

Q. What are the contractual arrangements between the two companies under which the Company will be able to use such facilities to provide service to its customers?

A. The Realty Company will lease such facilities to the Company under a long term lease agreement under which the Company will have the right to use such facilities in providing service to its customers and it will make payments to the Realty Company based upon the volumes of water that customers use. A form of such lease is being drafted and will be provided in draft form as soon as possible. The currently estimated charges under this Lease are generally described in the testimony and schedules of Mr. Alcott. As described by Mr. Alcott, the charges will be cost based and the return to the Realty Company (once earnings outstrip expense) is intended to reasonably conform to those allowed to water utility companies in Massachusetts.

Q. How does the Company plan to collect its costs from its customers?

A. As described further by Mr. Alcott, the Company is proposing a fairly standard form of tariff charges that are generally in the range of other similar companies in

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the Commonwealth. The rates include charges for usage (volume), a basic service charge, fire protection charges and a variety of charges for special instances including new installations. These too are cost based and are set forth in Attachment B hereto, along with the Company's Rules and Regulations pertaining to its service, which is included with this filing.

Q. How does the Company intend to ensure that customers receive service and all the protections that Massachusetts laws and the Department expect?

A. The Company is taking its imminent duties as a public water utility very seriously. The Company is familiar with all applicable regulations regarding water quality, consumer protection and general Department oversight and fully intends to comply with such requirements. The Company is familiar with the Department's concern with certain cases of real estate developers that create a new water company in connection with a particular project, then move on leaving an underfunded and/or unmanaged or deteriorating water system, all to the disadvantage of customers. We respectfully suggest that this is a vastly different circumstance and that the Department need not have any such concerns. The partners of Pinehills LLC depend on their reputations as top-flight developers for their continuing success. Any unfortunate experience with the development would tarnish those reputations and harm the partners' future business. Indeed, The Pinehills project is a high-end project for which there would be no tolerance for less than a top flight water system that is properly maintained and operated into the future. Further, where the project has a 10 year build-out, at least for the build-out period, the developers will have the very strong financial incentive of continuing sales efforts to ensure that the existing water customers (who are also The Pinehills owners) are happy with their water service.

Q. Is the Company seeking any approval at this time, other than for its proposed rates?

A. Yes, to the extent that the Department determines it to be necessary, the Company seeks three other approvals. As described above, the Company is entering a lease for use of the water supply and distribution facilities with an affiliate and recognizes this as a transaction for which approval may be required under General Laws, chapter 164, section 14, as made applicable to water companies by chapter 165, section 2. Additionally, we are filing the lease to satisfy the requirements of chapter 165, section 4A. We believe that such transaction is consistent with the public interest and is reasonable - most notably that such structure allows for lower cost water utility service. Additionally, the Company is providing evidence of its compliance with Massachusetts General Laws Chapter 111 and requests that the Department provide its written approval of the adequacy of the Company's water distribution system.

Q. What are the terms that the Company has with its parent company for the provision of administrative and general support services, as referenced above?

A. To avoid unnecessary duplication of space and personnel requirements, the Company will receive a variety of administrative support services from PS Water Services LLC. As such services are provided over the next year or so, the Company will

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determine, by methods generally accepted by the Department, appropriate allocation of employee time and overhead and office space. To ensure a representative cost of service, the Company has estimated such costs and proposes rates that would recover costs of allocated employee payroll or overhead, or office space.

Q. Will the Company have its own workforce for activities other than administrative and general activities?

A. The Company currently believes that the most efficient means of providing service for it is to contract out to third party providers the operation and maintenance of the water system and likely also the metering and billing. Current estimates of such costs have been factored into Mr. Alcott's schedules.

Q. Do you have any concluding remarks?

A. Yes. Pinehills Water Company and Pinehills, LLC take very seriously the task of providing reasonably priced, high quality water service to the residents of The Pinehills. They have built a solid water supply and distribution system and fully intend to maintain that system in a manner that will ensure achievement of the goal stated above. To accomplish that goal it is necessary that an appropriate rate structure be established and implemented expeditiously. The Company has worked hard to develop rates that, despite covering the costs of a wholly new system, will be in the range of other similar water utility companies in Massachusetts. In this context, the Company looks forward to addressing all questions the Department might have and to move forward with this project.

Q. Does that conclude your testimony?

A. Yes.

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DIRECT TESTIMONY

OF

DEBORAH SEDARES

IN THE MATTER OF RATES FILED BY

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PINEHILLS WATER COMPANY, INC.

D. T. E. 01- 42

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY